

FINAL BILL REPORT

HB 1706

C 188 L 01

Synopsis as Enacted

Brief Description: Authorizing the department of revenue to issue direct pay permits.

Sponsors: By Representatives Morris and Cairnes; by request of Department of Revenue.

House Committee on Finance

Senate Committee on Ways & Means

Background:

The sales tax is paid on each retail sale of most articles of tangible personal property and certain services. Taxable services include construction, repair, telephone, lodging of less than 30 days, restaurant meals, physical fitness, and some recreation and amusement services. The use tax is imposed on the use of articles of tangible personal property when the sale or acquisition has not been subject to the sales tax. The use tax commonly applies to purchases made from out-of-state firms.

The state tax rate is 6.5 percent. Local sales and use taxes also apply. The local sales tax is imposed by the jurisdiction in which the sale occurs. The local use tax is imposed by the jurisdiction where the property is first used. The total state and local sales tax rate imposed is between 7 percent and 8.8 percent, depending on the location.

The sales tax must be collected by the seller from the buyer and is held in trust by the seller until paid to the Department of Revenue. The use tax must be collected from the buyer by a business that maintains in this state a place of business or a stock of goods, or engages in business activities within this state. In all other cases, the use tax must be paid by the user.

Taxpayers who report taxes of over \$240,000 per year on the combined excise tax return are required to remit the tax by electronic funds transfer to the Department of Revenue.

Direct payment is a program that allows a business to buy goods without payment of sales tax to the seller at time of purchase. Instead, the business would pay the sales tax due, if any, directly to the Department of Revenue. According to a survey by the Federation of Tax Administrators, 33 of the 40 states with sales taxes provide for the direct payment of sales tax. Application procedures, requirements, and restrictions vary widely. For example, California limits the program to taxpayers with at least \$75 million in taxable purchases in each calendar quarter, while Idaho allows participation whenever it is to the "mutual convenience of the Tax Commission, the taxpayer, and the taxpayer's

vendors."

Summary:

A direct payment permit program is created under which a taxpayer may remit state and local sales and use taxes directly to Department of Revenue rather than to the seller. Generally the local tax will be assigned to the taxpayer's location rather than to the seller's location.

Taxpayers who remit taxes through electronic funds transfer or make taxable purchases of at least \$10 million annually may apply to the Department of Revenue for permission to directly pay sales and use taxes. The department will approve or deny applications based on the taxpayer's capability with regard to local sales and use tax coding, vendor notification, record keeping, electronic data, and tax reporting procedures.

Sellers of products for which a purchaser uses a direct pay permit are relieved of the duty to collect and remit sales or use tax.

Direct pay permits may not be used when purchasing meals or beverages, motor vehicles, trailers, boats, airplanes, auto towing services, hotel-motel services, auto parking, landscape maintenance services, telephone services, and personal services, such as amusement and recreation services, physical fitness services, and tattoo parlor services.

Votes on Final Passage:

House 94 0
Senate 47 0

Effective: August 1, 2001